

CSCMP hottopics

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Innovative Strategy Leverages Spot Quote Tools in TMS for Real-Time Freight Rate Benchmarking

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Most shippers regard the spot quote functionality of their TMS solution as a tactical device for booking expedited shipments when capacity is tight and carriers in the routing guide decline tenders – a costly means of covering loads but a necessary evil. The following innovative strategy flips this thinking on its head and harnesses the visibility afforded by a strong, competitive-bid-driven spot market solution to help drive significant savings on all freight movements.

Instead of using a spot market solution as one normally would, this strategy enables transportation planners to leverage the spot quotes gathered by the software tool as an analytical device and provides powerful insight into where contract rates should be in real time.

Just look at this sample data taken from a short two-week window of spot market activity reported by several customers currently utilizing the UltraShipTMS Spot Bidding solution.

Date Range:	4/8/18 - 4/21/18
Duration	14 Days
Shipments	2912
First Bid Total	502,268.25
Final Bid Total	473,325.50
Savings	28,942.75
Average Savings per Shipment	162.52
% Savings	5.688

With data culled from a number of shipper customers across varied industries spanning the same two week period and using the TMS to support automated spot bidding, these customers shared the data about the competitive bids management of their expedite/overflow shipments for a 14 day period. At the end of this two-week term, they'd moved a combined 2912 shipments on the spot market and yielded savings of almost \$29,000. The spread between the first bid received and the final bid ultimately awarded after competitive bidding was a respectable 5.7%. Extrapolating these savings across the entire year, these shippers could save more than three quarters of a million dollars on spot market shipping alone.

You're probably asking, "How can a spot bidding solution yield such dramatic results in the spot market where the expectation is that expedited freight will be a drag on transportation budgets?" Well, there are a number of ways the Spot Bidding solution drives results.

“Having spot market activity recorded in the TMS is a powerful driver of metrics supporting more effective, efficient use of the spot market.”



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HOW AUTOMATED COMPETITIVE BID ENVIRONMENT DRIVES RATE VISIBILITY

The first and most powerful is the formalization of the competitive bidding enabled by TMS tender automation. Growing numbers of logistics departments are only now becoming aware of something their counterparts in procurement have long known – a competitive bidding environment is highly effective at driving down costs for goods and services. With truckload capacity stretched historically thin in the US market, many shippers are increasingly reliant on the spot market to cover loads and the premiums they're paying are often astronomical. Yet, most continue to rely on phone calls and emails to solicit capacity outside of contracted lanes – accepting the first bid they receive in attempts to “cover the load” quickly.

Using this innovative strategy, the transportation user simply selects the appropriate mode of transport and the TMS distributes the bid request electronically to all the carriers available in their base of vetted, on-boarded carriers. Once the bid has been submitted, the user gets visibility into the bids proffered by all participating respondents and can select the best quote from among the responses received. Forcing the carriers to compete against one another in what is essentially a reverse auction provides a real incentive for the carriers to present the lowest bid to win the job.

Instead of grasping for capacity at any cost, the shipper using this solution can tap capacity at or closer to the true market rate in any given lane. More advanced practitioners of this discipline even take the additional step of calling on a preferred spot carrier participating in the bidding to offer a final opportunity to meet or beat the lowest current bid. In this case the shipper can often get both the better rate and the preferred carrier.

IDENTIFYING PATTERNS OF IMPROPER CARRIER BEHAVIOR AND SPOT MARKET MISUSE

Having spot market activity recorded in the TMS is a powerful driver of metrics supporting more effective, efficient use of the spot market. Reviewing the data at regular intervals, a transportation planner can identify lanes where it appears expedited shipping seems to be more frequently required.

Users of the Spot Bidding solution have reported some interesting other findings by virtue of the fact that all the data on carrier performance, tender acceptance and other metrics are stored in the TMS and can be fed into the powerful reporting and benchmarking features in the Spot Bidding tool and the Carrier Scorecard Reports.

In one salient example, a shipper using this solution was able to identify a set of lanes repeatedly ending up going out to spot bid. The shipper was able to secure a contracted rate in these lanes and remove them from regularly moving freight at a premium rate via the spot market.

ROI ON SPOT BID BENCHMARKING DRIVES SIGNIFICANT SAVINGS

Annual volume of expedited shipments in the example above is approximately 75,712 truckloads. Extrapolating these savings across the entire year, these shippers are projected to save more than \$750,000.00 on spot market shipping alone. With the average cost per load to use the TMS at between \$4 and \$7, the typical organization incurs subscription fees between \$50,000 and \$100,000 per year*. The savings captured by the spot quote function of the UltraShipTMS platform alone

About CSCMP Hot Topics

Issues of *CSCMP Hot Topics* may include early results from ongoing research being conducted for CSCMP or other organizations; new supply chain practices, thought-provoking ideas, or emerging trends; discussions of changes in the broader business and regulatory environment that may impact the supply chain and logistics field.



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provide a compelling ROI potential for investment into a solution like this.

WITH GREAT POWER COMES GREAT RESPONSIBILITY

It must be noted that this powerful strategy, like any other, holds the potential for damaging misuse. Utilizing the spot quote tools to gain up-to-the-minute visibility into true market rates should not be used to justify sidestepping existing carrier contract obligations altogether. Doing so will quickly result in alienating carrier partners and will have a negative effect on a shipper's ability to source capacity. What is suggested is to set aside a few hours at the beginning of each week to send spot tenders for shipments in the top 10 most commonly used lanes.

If the spot quotes returned are near or below contracted rates in any given lane, this indicates market rates may have fallen year over year. When spot rates lower than contracted rates are identified in a given lane, redirect a small percentage of freight in that lane to the spot market carrier.

Doing this for perhaps 10% to 15% of a shipper's volume during seasonal "valleys" accomplishes two significant goals. First, it enables them to bank the savings in their budgets to offset spikes during "peaks". Second, this practice provides timely benchmarks for market rates which may be used to renegotiate contract rates. It is never recommend a shipper divert more than 10% to 15% of its volume away from its contract carriers using this strategy, or the shipper risks undermining its credibility with these very important partners.

What is recommended is applying this strategy on the most commonly utilized lanes first and wherever necessary, reach out to the carriers in the routing guide to get the rate adjusted. Then move on to all other lanes in the routing guide. This innovative approach essentially uses the spot market tool as a rate benchmarking and management instrument!

For the details behind the two-week study referenced at the beginning of this paper, [register and instantly download the entire document here.](#)¹

ABOUT ULTRASHIPTMS

UltraShipTMS is a best-of-breed solution for high volume shippers with operations across North America. The UltraShipTMS platform is robust and flexible enough to address any and all complex transportation logistics challenges. UltraShipTMS offers award winning software-as-a-service solutions to leading shippers in food production, packaging, manufacturing, retail and other industries. UltraShipTMS, UltraYMS and the LoadFusion transportation optimizer provide a single-source solution for transportation and private fleet management, optimization and settlement handling in- and out-bound shipping across all modes of transport. UltraShipTMS delivers benefits beyond the expected transportation management improvements, driving value within every functional area of the customer organization touching transportation, upstream and downstream.

www.ultrashiptms.com²

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ABOUT THE AUTHOR

UltraShipTMSVP of Sales & Marketing, Anthony Vitiello, is a veteran of the enterprise automation technology industry with a 25 year record of success marketing enterprise software solutions to some of the world's largest companies. Anthony has held marketing leadership positions in Fortune 500 companies and agencies serving Silicon Valley companies through the heyday of the dot-com boom. A published columnist and prolific blogger, Mr. Vitiello is responsible for generating and curating the UltraShipTMS Supply Chain Collaborator blog and the company's burgeoning library of technical papers, business case studies, e-newsletters and other materials.

FOOTNOTES

*Fees vary widely according to size and scope of individual business requirements.

¹ <http://www.ultrashiptms.com/spot-quote-automation-case-study/>

² <http://www.ultrashiptms.com>



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